

Public Meeting Notes
Bonneville Power Administration
Regional Dialogue Policy Proposal
Rates Hearing Room, 911 NE 11th Ave.
Portland, Ore. – 3:30 p.m. – August 9, 2006
Attendees: Approx. 32 (not including BPA)

These notes are intended to summarize oral comments given at the Bonneville Power Administration's public meeting on its Regional Dialogue Policy Proposal. This summary is not a verbatim transcript. It will become part of BPA's official record.

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Opening Remarks

Mark Gendron, Vice President for Requirements Marketing, Bonneville Power Administration (BPA), convened the public meeting at 3:30 p.m. Attached is a list of attendees.

Gendron welcomed attendees and encouraged oral comments at the meeting and, if desired, separate written comments. The agency's Regional Dialogue Policy Proposal (Proposal) was released for public review on July 13, 2006. The official comment period will end Sept. 29, 2006.

Gendron summarized the Proposal and opened the floor for public comment without regard to topic. He said BPA wants to clarify the Proposal and encouraged questions.

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Public Comments

Jack Speer of Alcoa said the Regional Dialogue (RD) is "all about the way to reallocate the benefits of the federal hydro system. The number one priority is to make it fair to all the stakeholders that are affected by the federal system" – among them, consumers, utilities, and Direct Service Industrial (DSI) customers – "beneficiaries of the federal system."

"What is fair is my concern," he said. In 1940, when Alcoa began taking service, Clark PUD didn't exist. "Alcoa is just like a lot of loads in the Northwest served by public utilities," he said. "We are a historical accident that we were first" to receive direct service from BPA. He mentioned the value the aluminum industry has brought the region: for example, jobs, metal for planes and ships, and economical power reserves.

Speer described his company's two Northwest plants – one in Ferndale, the other in Wenatchee. The former is served entirely by BPA; the latter, half by BPA and half by Chelan PUD.

Economist Richard Conway studied the plants' impacts on jobs, Speer stated, explaining that the aluminum industry is an important factor in the local communities. "Every job is important," he said, "and we need to do things for the overall economy."

Speer spoke to the 320 megawatts (MW) of equivalent “benefit from BPA that allows us to buy market power.” He stated that some wrongly refer to BPA’s support as a subsidy. “It’s unfair,” he said.

He said that while there is a high aluminum market currently, Alcoa must “limp along” and sees the current contract as a bridge “until we get something more sustainable.”

A study by CRU Strategies looked at Alcoa’s plants and concluded they can operate at BPA’s rates, but not at market prices.

Speer said Alcoa’s proposal is for BPA to treat them “like others in the Northwest. Sell Tier 1 [power] to utilities for service to the DSIs – the same [arrangement] as Port Townsend Paper.”

“If too many plants have to operate at half capacity,” he concluded, “they’ll all probably go out of business. Of the 3,000 MW once sold [to aluminum smelters], 560 is not an unreasonable number in going forward; it would give us a fighting chance.”

Rachel Shimshak of the Renewable Northwest Project said she participated in the RD process with many of the attendees in the room.

She noted that customers want to know how much power they’re getting and at what rates. Renewables supporters, on the other hand, want to know what BPA is doing to satisfy the resource acquisition requirements under the Act, which calls for energy efficiency as first priority, renewables second. If BPA would continue to meet the region’s load growth, it would do so with energy efficiency and renewables, she said. But if not, how will BPA ensure the rest of the region follow’s the law’s priority?

“The good news,” she said, “is that BPA has included renewables in its Proposal and will follow the Council’s plan. Nice job.” On the other hand, the “mixed food group,” an advisory committee in which she participated during the RD process, recommended that BPA pursue long-term integration products featuring price certainty and that BPA continue to facilitate renewables. The group, she said, also gave signals to BPA that it would be “okay for Bonneville to acquire renewables in advance of need.”

As to integration of renewables into the system, she mentioned that the language in the RD paper is “okay, except that it includes a very big caveat. While we are pleased that BPA and the region’s utilities are engaged in a larger discussion on integrating renewables in the system, the lack of certainty on this issue is a big problem. She urged BPA to commit to a long-term integration product at a certain price for a certain period of time, and to reconsider offering the integration product to the IOUs. She also underscored her support for item No. 9 in the Slice product section which says that the Slice product will no longer include intra-hour flexibility. That flexibility, she said, should be retained for the system as a whole.

Regarding a renewables budget, she noted BPA’s proposal to spend up to a net \$21 million per year plus escalation. “That ought to be a floor,” she said, “to provide facilitation dollars to utilities for renewables. But if you’re not getting [the goals] done, do what it takes to ‘get there.’”

She urged BPA to be consistent through its paper about the types of activities the facilitation monies are available for. She also called on BPA to “purchase ahead of need” because there’s “tremendous activity in the market – a good thing.” She said BPA should “get busy thinking how it would create a Tier 2 [renewables] product. Site banking might not be enough. Talk to customers and line up renewables in advance of need.” She proposed a “reasonable range” of products to meet customer needs. “To wait until you’re asked, will be too late.”

Renewable resources provide long-term certainty, she said. “Develop a diverse portfolio with renewables. It will help meet the Council’s goals, diversify the system, and promote economic development and benefit the environment. It will keep the economy buzzing if we can follow through.”

Angus Duncan, the president and CEO of the Bonneville Environmental Foundation, told attendees his group has participated in the White Creek project, possibly the largest public-power wind project in the county.

Having an integration product is a major issue for the project, he said. The first 100 MW of the 200-MW project is being shaped to meet load, but how to shape the second hundred is “up in the air; it gives all of us a significant case of the hives.” This residual uncertainty, he said, speaks to the need for an integration product and a level of certainty of its “availability over ten to 20 years, at a cost with a reasonably predictable price tag.”

He suggested BPA risk management determine “what risk premium is needed to keep BPA whole” and that project developers should have the option of paying it or carrying the risk themselves. “It wouldn’t involve a subsidy,” he said, “but the exchanging of a risk premium.”

He mentioned an initiative to estimate how the region is to meet a target goal to integrate 5,000-6,000 MW of wind over the next 20 years. “It’s clear how to integrate 1,000-1,500 with the existing system, but it’s not clear how to do the rest. It’s essential that the existing Federal Base System capacity to integrate new wind not be degraded.” He said it’s very important for BPA to clearly assert a prior right to system flexibility to meet wind integration and other public purposes before allocating capacity to Slicers.

He compared the Proposal’s principle 9 on renewables against a more complete listing on p. 41 of “off the top” capacity allocations.

He said there’s a perception that system flexibility maintained for the region is worth more than if the system is “chopped up and allocated out.” Pooling system flexibility – including the flexibilities of other parties’ systems in the region – will be successful only if they add their flexibility to the BPA system.

In reference to the “up to” language for a proposed renewables budget, he said, “If the object is to set renewables acquisitions at a target, don’t set it at an input dollar figure. Twenty-one-million dollars may be needed to meet a target initially, to jump start the facilitation process. Thereafter, the amount may be more or less from year to year.”

Commenting on the White Creek project, he said, “We had to front the entire cost of a substation to integrate it. That cost, or some part of it, could have been undertaken with facilitation dollars or as a loan.” BPA should be flexible on the use of the money to “carry out signals Bonneville is giving to the region.”

It’s good to see meat-on-the-bones specificity with respect to facilities, he said, but “don’t cap it, don’t put a floor on it. Aim at an outcome, not to stay beneath or exceed some dollar amount.”

Alan Meyer of Weyerhaeuser said he was pleased to see reduced BPA rates and that he was comfortable with many provisions of the Proposal. “We are concerned with those that could raise costs” because “Weyerhaeuser is the largest retail consumer of BPA load,” or approximately five percent of public load in the region. He gave statistics on the size of Weyerhaeuser’s regional operation in terms of employment and payroll.

“We had low rates, but we lost that advantage,” he said. “Now at retail we pay no longer lower than other utilities in the U.S., even Northwest IOUs. Don’t increase BPA’s costs by offering increased entitlements.”

Scott Corwin of PNGC Power said his firm holds power contracts for 15 cooperatives. He thanked and commended the hard work of BPA staff and customer representatives “to get us to where we are now. There is a lot of consensus, but not on every topic.”

He said PNGC agrees in principle to limit BPA’s sales to the size of the existing FBS. “It’s critical for clarity of Bonneville’s role and our resource planning.”

Commenting on “service to publics” portion of the Proposal, he said he is generally pleased with the methodology to determine the level of access to Tier 1 in that BPA recognized the need to use up-to-date load data and also allow time to plan. He said that there needed to be some clarification on the “extent to which groups can operate as a pool; they should be able to operate as a pool,” he said. On costs, there needs to be more clarity on the ability to “keep Tier 1 and Tier 2 costs segregated.”

The “transfer service” portion of the document is “a good section. It’s key to have the ability to move non-federal power to load on a basis equal to the ability to move federal power.” He said his company will have further suggestions on that section.

On products, he said Slice is anticipated to be offered upon resolution of litigation. “Perhaps it could be made clearer that integration of renewables is an off-the-top obligation of the system.” Also, he said PNGC is concerned about some of the changes to the product included in the proposal and he looks forward to meeting with BPA staff to try to understand BPA’s reasoning. He said that a viable Slice product is key for the ability to integrate new resources under the RD plan.

Regarding the residential exchange, the method of the construct proposed “makes sense; it captures the discussions to date.” However, on the dollar figure, he said people will need to debate, negotiate, and try to work to resolution.

On DSI service, he said, “We’ve had a difference of opinion on the legalities and economics. We do not believe they should receive service post 2011. But there’s been a good effort by Bonneville to get the range of options down on paper.”

Craig Anneberg, who manages Norpack Newsprint, said his firm is the largest newsprint site in North America. Their product is sold in the western U.S., in Japan, and throughout Asia, and it is used by the *Seattle Times* and *The Oregonian*.

His concerns, he said, are on “the cost side.” The company has gone from 600 employees to 450 in 2000 and is “integral to the Longview site” where 1,800 are on the payroll. The newsprint business is competitive, he said, with electricity costing more than any other input including labor and woodchips. The Longview site consumes 250 MW of power, he said, representing three percent of BPA’s load. The firm has implemented many conservation projects with the local PUD.

As to rates, the company paid \$4/MWh in 1979 and is now paying \$32, an increase of 680 percent. “We’ve been able to increase the product price about 50 percent, he said, but for every dollar per megawatt electricity rises, it costs his company \$2 million. “It comes out of the bottom line of the business. We cannot sustain it.”

He urged BPA to “help keep current electricity costs from further escalating.”

Rick Parker, senior vice president at Longview Fibre, Paper and Packaging, Inc., clarified that his operation was separate from that of the previous speaker. He said his firm depends on power from BPA, more than 100 MW of total load. Their relationship with BPA is very important to them, he said.

Longview Fibre has been a net power producer, selling excess on-site generation into the market, he explained. He said cogeneration facilities like theirs help the region and Bonneville get value out of the power system, and are also good business for his company.

He said he has heard about the issue of system flexibility and the need for certainty. Such stated goals, among others, “are the basis we need to start with,” he said, and that parties must “come to the table with low-cost, available power for the region that meets a long-term benefit of the region and the economy.” His firm’s association with BPA is important for them to be successful.

His company has been forced to find ways to be more efficient, he said, mentioning their 2,400 jobs in Seattle, Yakima, Twin Falls, and Longview. He said, “Not unlike the fellow industrial workers [present], jobs are important to us and to the community. As long as the playing field is level – one industry not subsidizing another – it’s good for the region, good for business.” He said he hopes the Regional Dialogue will achieve that and added that his company would be submitting detailed written testimony.

Jeff Bissonette of the Citizens’ Utility Board said his group has been involved in Bonneville processes for many years; CUB also represents the interests of the residential customers of investor-owned utilities. The Proposal, he said, is a paradigm that shifts resource development to utilities. If not adequately addressed in the Proposal, the issue “could come back to haunt the region. It’s controversial and demands careful scrutiny.”

He enumerated six potentially adverse consequences of the paradigm shift:

1) There will be a loss of regional planning, with each utility’s operations divorced from the rest, resulting in a suboptimal system.

2) It creates an “every utility for itself” environment under which utilities may “lean” on the system. “Will Bonneville enforce and assert itself on resource adequacy rules?” he asked.

3) It may encourage movement away from conservation and renewables.” Bonneville’s commitment to acquire all cost-effective resources may not be borne out,” he said.

4) There is no augmentation, only allocation: “It locks residential consumers of IOUs into a beneficiary system. They should have true parity of publicly owned utilities and not be treated as second-class citizens. BPA must ensure the benefits are large enough to represent a fair allocation of the federal system.”

5) Energy efficiency is still the priority resource in the 1980 Act. “The proposal makes a promise – but count us among the skeptics,” he said. Energy efficiency can reduce bills, decrease dependency on fossil fuels, help avoid new transmission, and lessen environmental impacts, he said. “Make more concrete Bonneville’s commitment to acquire its customers’ share of conservation.”

6) Renewables: “Bonneville is shirking its responsibility under the Act,” he said. He questioned the wisdom of a “supporting role” and of “divvying up the system instead of supporting renewables. It will leave the system with nothing to support renewable energy.”

In conclusion, he said, “Fish and wildlife must not do worse than now. The lot of fish and wildlife must improve. The Columbia River is a home for fish and wildlife. Any plan must assure their protection.”

Edward Bortz, mill manager of Weyerhaeuser’s container mill in Springfield, said his company recently lost a large account, Dole Pineapple of Hawaii. “We need to make sure we have fair rates going into the future,” he said.

Pat Flaherty, a union member at Alcoa’s Intalco plant in Ferndale, said his facility has been engaged in a High Performance Work Organization effort. HPWO seeks to involve employees in productivity and safety improvements, and “affordable power rates” used to be behind safety in terms of priority. Things changed after Enron, now with declining employment at Alcoa’s plants, operations diminished to one-third capacity, and talk that the DSIs should be “knocked off the grid. We disagree,” he said. “We want a fair break as industrial customers served through the PUDs.”

He mentioned an aluminum billet extrusion plant for the production of window frames and the like in Portland that is dependent on Alcoa’s product. The operation requires a seven-day lead time and the requirement for material “is touching 900 people here as well as in Ferndale.” He said Alcoa also ships its product to Utah and elsewhere in the I-5 corridor.

“People think of aluminum plants as polluters,” he observed. “On the contrary, they are among the most efficient industries. Intalco did a 50-percent reduction in greenhouse gases.” He also mentioned his firm supports community involvement.

A senior policy associate of the NW Energy Coalition, Steve Weiss complimented BPA on “many items” in the Proposal and acknowledged the hard work that went into its development. “It could have been a lot worse, and it has many good pieces,” he commented. “But we’re against the whole thing.”

One-hundred utilities “pushed into the market to fend for themselves” is simply a form of deregulation, he said. “Look at the California situation and heed the hard lessons.” He spoke of boom-and-bust cycles of over- and under-building generation that occurs in an industry marked by price volatility. Such actions, he said, are not due to bad decisions but to the commodities market. When prices are low, utilities under-build; when they’re high, “overdevelopment occurs.”

“Trying to build against the market is risky behavior,” he continued. “No single entity can take actions and everyone save dollars.” Trouble can be avoided through “collective agreement” by following the Council’s plan. He acknowledged some of the difficulty might be avoided through enforceable resource standards, “but [that approach] hasn’t worked in any market. Public utilities have pointed this out many times, yet here they are, asking for this [deregulated] system.” By focusing on short-term costs, the long term gets lost in the marketplace, he observed.

Also there are “reduced economies of scale,” he said, “if the region tries to acquire a megawatt here, a half a megawatt there. It leads to higher transaction costs and risks. If utilities are out on their own, the cost of capital will get very high.”

He cited the example of Idaho Falls' participation in a 25-MW share of a coal project, to serve five years of load growth at the 100-MW utility. "They'll be surplus for a while, then have to sell and be exposed to the market, and will need large financial reserves."

He said it will be hard for utilities to account for carbon emissions and societal costs, and loads could materialize that will be exposed to the risks of the transmission system. "But since transmission is paid for by other entities, you need one utility planning," or benefits will be lost in a deregulation world. "Bonneville's scheme isn't going to end with the development of resources consistent with the power plan. There is no assurance utilities will proceed according to the plan. With the risk of one-utility planning being lost, the ability to spread risk is lost. But if Bonneville is taking the risk of meeting load growth, Bonneville can spread that risk."

He cautioned BPA to "be careful rushing forward into this controversial scheme. I can't stop the ship, but the warnings are there. You must anticipate problems."

As to energy efficiency and conservation, he said, "Bonneville has lowered its target." Under the current model, BPA would be responsible for meeting one-hundred percent of the load growth of Seattle, for instance, "but under the target Bonneville has set, its share of Seattle's load would only be the proportion that Seattle purchases from Bonneville. Thus BPA's target is seriously low."

On the subject of IOU benefits, he said that, out of fairness, IOU residential customers need to be able to participate in and take advantage of the conservation discount funds. "Under the Act, they are to be treated equitably with consumer-owned utilities."

He said "CHP, or cogeneration, is left out" of the Proposal," despite its being the third priority under the Act. "There are no research programs, no dollars in the plan. Bonneville should have a program to capture" cogeneration benefits. Regarding renewables, he commended BPA for committing to capturing the target.

As to a proposed Tier 2 product, "Bonneville has no business in the fossil-fuel market," he said. "Only renewables or market purchases should be made."

On resource adequacy, he remarked, "Two weeks ago, we almost saw the region go black. Utilities sold themselves into almost a critical water situation." He said that resource standards vis-à-vis the Council "would be voluntary and would carry no weight. Bonneville must fix that to assure utilities acquire adequate resources so we aren't all put at risk."

Regarding the fish program, he said, "Don't let fish pay for bad planning." He called for an environmental analysis that compares Path A (the plan) with an Alternative (no plan, but following the Act). "Compare what kinds of generation will be built. Relying on the old Business Plan EIS is ridiculous. This requires a new study."

Rhett Lawrence, an analyst for the Save Our Wild Salmon organization, said his primary concern is how the plan affects Northwest salmon. He noted the "near absence" of references to salmon in the document. He said he is pleased with the renewables component, but "resist the urge to drive a wedge between fish and renewables. It's disingenuous for Bonneville to suggest fish operations limit system flexibility; there are many reasons."

He called on BPA to remove the four Lower Snake dams and replace the lost power with clean energy. "You would save dollars on barging" and other expenses," he said. "Have a smart approach that increases renewables and decreases impacts on fish. That would be a good thing."

Geoff Carr of Northwest Requirements Utilities said, “We would in no way support this document if we thought the future would be as Steve Weiss says. We see a future where Bonneville continues to provide load following and load growth for utilities. We do not see disarray there.” He said he looks forward to working with BPA and “this process to make the transition to this world as seamless as possible,” where load growth will be “a line item on the bill, not melded” in with other costs.

Travis Metcalfe of Tacoma Power thanked BPA for the work so far. He said there are a number of issues still awaiting consensus and that he looked forward to continuing the effort to reach consensus.

Board member Sue Kuehl of Grays Harbor PUD acknowledged, “We all represent our interests. Slice is near and dear [to us], but there is a fair amount of misunderstanding about Slice as to the helpful things it does for Bonneville to minimize costs and risks.” She described how participants make predictable payments for the product and make prepayments to help BPA’s financial risk.

She mentioned that a Washington State renewables portfolio standard “is coming our way. It will require every utility to add renewables. There will be a stringent [requirement to spend] four percent of revenues on renewables.”

She said Grays Harbor PUD wants to use Slice to “balance the intermittent quality of renewables to satisfy our commitment to renewables.”

On the matter of DSI benefits, she said, “We aren’t against jobs. Weyerhaeuser is shutting down a mill in our area. We don’t understand why the DSIs should get a special deal from Bonneville.”

She said she appreciated the RD effort overall – “a good process that’s been transparent to customers. Bonneville is reaching out and hearing us out.”

Vicki Henley, a union leader with the IAMAW, said she wears two hats – “buying residential power from the PUD, but also needing a job from a DSI to pay my bill.” She said the Northwest Power Act requires BPA to “service the Northwest. The DSIs are part of the Northwest.”

Alcoa, she said, started before the PUDs. “We never asked for special deals, just to be served through Whatcom PUD.”

She said 42 percent of Alcoa’s costs are for power expense and that the 3,000 MW of sales to the DSIs has dwindled to 560. She said 9,000 jobs have been lost with aluminum plant closures.

She wondered whether “the power problem is based on poor planning by Bonneville, or the DSIs.” She said Alcoa is not asking for a special deal, but a fair deal. “We want the plant to go through the PUD and for Bonneville to service ‘the region.’” Sending surplus power to California, “when other customers are saying they need power,” isn’t right, she said. “We’re part of the region, we should be served first.”

Rachel Shimshak of Renewable Northwest Project sought to correct two remarks by **Sue Kuehl** of Grays Harbor PUD. First, the renewables portfolio proposition applies only to large customers, Shimshak said, and second, utilities may spend “up to” a cap of four percent on the renewable resources. “Hopefully the renewables will be cost effective and not cost more,” she added.

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There were no further comments and the meeting was adjourned at 5:30 p.m., although BPA staff remained available in the event persons arriving late might wish to testify (there were none).

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Respectfully submitted,
Rodney A. Aho, Notetaker
Bonneville Power Administration
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Attendees
 BPA Regional Dialogue Public Meeting
 Portland, Ore. – August 9, 2006

1.	Anneberg, Craig	Norpac Newsprint/Weyerhaeuser
2.	Barrow, Pam	Northwest Food Processors Association
3.	Bissonnette, Jeff	Citizens' Utility Board
4.	Boomer, Linda	Franklin PUD
5.	Bortz, Edward	Weyerhaeuser/Springfield
6.	Brattebo, Scott	PacifiCorp
7.	Carr, Geoff	Northwest Requirements Utilities
8.	Chestnutt, Judy	Alcoa
9.	Corwin, Scott	PNGC Power
10.	Dotten, Michael	Heller Ehrman for Alcoa
11.	Duncan, Angus	Bonneville Environmental Foundation
12.	Flaherty, Pat	Alcoa/IAMAW
13.	Garnett, Ley	OPB Radio
14.	Gillen, Roman	Consumers Power
15.	Henley, Vicki	Alcoa/IAMAW
16.	Jenks, Chris	Weyerhaeuser
17.	Kuehl, E. Sue	Grays Harbor PUD
18.	Lawrence, Rhett	Save Our Wild Salmon
19.	Metcalfe, Travis	Tacoma Power
20.	Meyer, Alan	Weyerhaeuser
21.	Morlan, Terry	Northwest Power and Conservation Council
22.	O'Meara, Kevin	Public Power Council
23.	Parker, Rick	Longview Fibre/PPI
24.	Shearer, Danny	Georgia Pacific
25.	Shimshak, Rachel	Renewable Northwest Project
26.	Speer, Jack	Alcoa
27.	Tucker, Libby	Daily Journal of Commerce
28.	Weiss, Steve	NW Energy Coalition
29.	Aho, Rodney	BPA
30.	Asgharian, Maryam	BPA
31.	Burbank, Nita	BPA
32.	Chalier, Annick	BPA
33.	Gendron, Mark	BPA
34.	Kitchen, Larry	BPA
35.	Latham, Dale	BPA
36.	Stiles, Rebekah	BPA
37.	Wilson, Scott	BPA